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SPECIAL COMMITTEE ON THE SITUATION WITH REGARD TO THE IMPLEMENTATION OF THE DECLARATION ON THE GRANTING OF INDEPENDENCE TO COLONIAL COUNTRIES AND PEOPLES

ACTIVITIES OF FOREIGN ECONOMIC AND OTHER INTERESTS WHICH ARE IMPEDING THE IMPLEMENTATION OF THE DECLARATION ON THE GRANTING OF INDEPENDENCE TO COLONIAL COUNTRIES AND PEOPLES IN ALL TERRITORIES UNDER COLONIAL DOMINATION AND EFFORTS TO ELIMINATE COLONIALISM, APARTHEID AND RACIAL DISCRIMINATION IN SOUTHERN AFRICA

CAYMAN ISLANDS

Working paper prepared by the Secretariat

1. Basic information on economic conditions in the Cayman Islands with particular reference to foreign economic interests is contained in the working paper prepared by the Secretariat in 1992 (A/AC.109/1097). Supplementary information on the activities of foreign economic interests in the Territory is set out below. 1/

2. In his statement to the third Annual Cayman Islands Bankers Association Conference on 22 November 1991, Mr. Alan J. Scott, Governor of the Cayman Islands, outlined the policy of the territorial Government vis-à-vis the foreign economic interests, emphasizing that his Government would continue "to welcome honest commercial activities and to cooperate with the authorities world wide in dealing with criminal activities". 2/

3. During the period under review, foreign investments continued to represent an important share in the main economic sectors of the Territory, namely, finance, insurance, tourism, real estate and construction. They are generally encouraged by the territorial Government as an important source of economic growth as they provide substantial amounts of capital and foreign

exchange. The Territory's economy has demonstrated stable and unprecedented growth during the last decade. The standard of living in the Territory in 1991 was the highest in the Caribbean and one of the highest in the world. As of 1990, the gross domestic product of the Cayman Islands reached CI$ 454 million, showing an 11.27 per cent growth in real terms over 1989. 3/ The Cayman Islands is the fifth world financial centre, following the United Kingdom of Great Britain and Northern Ireland, Japan, the United States of America and France. 4/

4. The territorial Government, during the period under review, continued to promote the Cayman Islands as one of the world's largest financial centres. Further steps have been taken to attract such foreign investments as could be beneficial to the Territory.

5. As part of that continuing process, the supervision of foreign investment is carried out by the Banking Supervision Department and governed by banking and trust laws. The Department monitors operations of foreign investors and ensures adherence to the territorial guidelines and requirements. Those accord in full with the standards of the Basel Concordat, an international body comprising supervisory authorities around the world. 5/

6. In July 1991, the Legislative Assembly of the Cayman Islands unanimously adopted a bill entitled "Exempted United Partnership Law" which replaced the 1983 Partnership Law. The new legislation guarantees the exempt limited partners a tax exemption from the Cayman Islands Government for the next 50 years. The new law is expected to attract additional inflow of capital from American and Japanese companies that have a preference for limited partnership investment. 6/

7. At the same time, the Government continued to take steps aimed at protecting the economic structure of the Territory from illicit activities of foreign economic interests, such as drug trafficking, money laundering, smuggling of funds, tax evasion and other forms of economic fraud. To that end, in 1989, the territorial Government, along with the Governments of the United Kingdom and the United States, signed a Mutual Legal Assistance Treaty, which provides for the exchange of information on a range of crimes. In 1989, the Treaty was ratified by the United States Senate. 7/ The Cayman Islands is a member of a Caribbean Customs Agreement entitled "The Memorandum of Understanding regarding Mutual Assistance and Cooperation for the Prevention and Repression of Customs Offenses in the Caribbean Zone" aimed at preventing problems arising from smuggling of funds, money laundering and false invoicing, as well as detecting various kinds of white-collar fraud and drug trafficking. 8/

8. It will be recalled that, on 5 July 1991, regulators in seven countries, namely, Luxembourg, the United Kingdom, the Cayman Islands, Spain, France, Switzerland and the United States, seized control of the Bank of Credit and Commerce International (BCCI), a private banking group, on the grounds of widespread fraud. 9/ The Bank's Cayman operations revolved around three main groups, BCCI (Overseas), the Credit and Finance Corporation (CFC) and the

International Credit and Investment Company (ICIC). Based in the Cayman Islands, these three BCCI affiliates reportedly had controlling offices in 29 countries and were responsible for being a conduit for many of the fraudulent activities of BCCI. 10/ On 15 January 1992, Caymanian law enforcement agencies presented to the Cayman Islands Grand Court documents containing data regarding the Bank's fraudulent activities in the Territory. Those documents indicated that BCCI (Overseas) had liabilities of approximately US$ 4.2 billion against realizable assets of US$ 471 million, while about US$ 600 million in BCCI (Overseas) deposits had not been recorded and therefore could not be traced or accounted for. The loan portfolio of BCCI (Overseas) was estimated at US$ 3,244 million against US$ 165 million that could be located and collected. The Cayman Islands Grand Court was also informed that CFC had liabilities of US$ 135 million against realizable assets of US$ 3 million. The report concluded that the liquidation of BCCI in the Cayman Islands would allow depositors and creditors to collect a pay-off of only approximately US$ 0.1 per US$ 1.00. On 16 January 1992, the Grand Court issued an order for the final liquidation of all BCCI interests in the Cayman Islands. 11/ Such liquidation also resulted in the termination of employment of approximately 70 Caymanians hired by three BCCI affiliates. 12/

9. A number of companies were involved in stamp duty evasion operations. According to press reports, the 1989 real estate transactions included 414 (312 in 1988) land transfers "for natural love and affection" which are not subject to the normal 7.5 per cent stamp duty. This legal loophole for avoiding the stamp duty led to a significant decrease in that source of government revenues. 13/

Notes

1/ The information contained in the present paper has been derived from published reports and from the information for 1990 and 1991 transmitted to the Secretary-General on 24 July and 30 December 1991 by the Government of the United Kingdom of Great Britain and Northern Ireland under Article 73 e of the Charter of the United Nations.

2/ The Caymanian Compass, 22 November 1991.

3/ The local monetary unit is the Cayman Islands dollar (CI$). Under the Articles of Agreement of the International Monetary Fund, the value of the Cayman Islands dollar in relation to the United States dollar is fixed at CI$ 1.00 = US$ 1.20.

4/ The Cayman Islands Annual Report, 1989, published by the Government of the Cayman Islands (George Town, Grand Cayman, British West Indies), p. 4.

5/ Ibid., p. 33.

6/ The Caymanian Compass, 29 July 1991.

Notes (continued)

7/ The Cayman Islands Annual Report, 1989, p. 25.

8/ The Caymanian Compass, 16 November 1990.

9/ The New York Times, 5 July 1991; see also The Financial Times (London), 5-6 July and 10 July 1991.

10/ The Financial Times (London), 12 August 1991.

11/ Foreign Broadcast Information Service, Cayman Islands, "BCCI Final Liquidation Order Delivered", 16 January 1992.

12/ The Caymanian Compass, 2 April 1992.

13/ Ibid., 8 October 1990 and 18 January 1991.